

**DISSENT**  
**Commissioner Mike Gleason**  
**Ajo Improvement Company – Application for a Rate Increase**  
**WS-01025A-03-0350**

I respectfully dissent. This Order approves significant rate increases for both the water and wastewater systems. While I find there is sufficient evidence to approve a rate increase, I disagree with the decision to phase-in the rate increase for the wastewater system. The phase-in attempts to ease the rate shock of the new rates by incrementally increasing the customers' bills. However, in the end, the phase-in creates the absurd result of even higher rates. The phase-in ultimately brings a greater monthly burden to the ratepayers than a rate increase without it.

1. **The phase-in results in a 165% rate increase.**

The proposed Order originally recommended a lesser rate increase and did not include a rate phase-in. Without the phase-in, the wastewater rate would have been \$15.65. However, the phase-in raises the wastewater rate to \$16.10. A higher permanent rate in exchange for less high rates for the first six months is not in the ratepayers' interest.

2. **The phase-in raises the Applicant's rate of return from 8.8% to 13%.**

This Order approves an unacceptably high rate of return for the wastewater system. The administrative law judge rejected the company's request for a 10% rate of return and recommended an 8.8% rate of return for both the water and wastewater systems. The 8.8% rate of return was properly calculated using the utility's weighted cost of capital after an examination of the utility's cost of debt, cost of equity and its debt/equity ratio. After the time for testimony was over, after the hearing had concluded and after the time for Exceptions had expired, a proposal to phase-in the rates came from the bench at the Open Meeting. The Commission simply increased the rate of return to correspond to the desired phase-in rate without regard for the rate of return analysis

conducted in the testimony, discussed at the hearing and reviewed by the administrative law judge.

3. **Customers may see higher bills to pay for compliance with new EPA arsenic levels.**

Beginning January 23, 2006, the EPA will require water systems to provide drinking water containing arsenic levels less than 10 ppb. Ajo Improvement Company currently provides drinking water with arsenic levels at 22 ppb and conforms to the current EPA standard of 50 ppb. To comply with the new standards, the Commission found that *“the Company will be required to implement a plan to address this issue, which could mean installing additional treatment facilities or locating better sources of water to achieve 10 ppb or less.”* Without predetermining the outcome, it is possible Ajo customers may be faced with higher water bills to pay for these improvements. It is not in the ratepayers’ interest to phase-in wastewater rates resulting in an artificially high rate of \$16.10 only to be faced with the possibility of another rate hike to pay for arsenic remediation.

4. **This is not the appropriate case for a phase-in.**

In my opinion, there are rate increases where a rate phase-in may be appropriate: 1) when the rate increase is extremely large; 2) when the phase-in period is for a sizeable period of time; and 3) when there is no further expected rate increase for the ratepayer in the near future. This rate case does not meet this three prong analysis.

For the reasons listed above, I dissent.



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Mike Gleason  
Commissioner